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ABSTRACT

In this distributive education student's guide on the free enterprise system, principles of the American economic system are introduced as they relate to marketing and distribution. This twenty-four-page document includes directions and an introduction to the material. Twelve "Principle Sheets" on various economic concepts contain objectives, vocabulary words to learn, and an explanation of the concept. The concepts are unemployment, capital, money supply, government role, monopoly, production, supply and demand, pricing, profit, competition, gross national product, and inflation. Learning activities for these concepts are contained in the teacher's guide (CE 020 457). (CT)

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PROFIT--THE KEY

PRINCIPLES OF THE AMERICAN FREE ENTERPRISE SYSTEM FOR DISTRIBUTIVE EDUCATION STUDENTS

STUDENT GUIDE

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DIRECTIONS

1. Read the directions.
2. Read the introduction.
3. Beginning with "Unemployment," read the principle sheets in each section as your teacher instructs you to do so.
4. You should read all that is included in each section: the student objective, the terms given under "Can You Learn These," and the subject matter.
5. When you have finished reading, ask your instructor to give you the learning activity for each section as you complete it.
6. When you have finished the learning activity, ask your instructor for the "Quick Check" test to see how much you have learned.
7. There are additional learning activities the instructor may wish you to complete.
8. Your instructor will give you a Unit Test once you have completed all of the activities and reading material.

INTRODUCTION

How much do you know about the way our economy operates in relation to marketing and distribution? This unit will explore our American Free Enterprise System and will help you understand some of the principles and concepts of our system and how they function.

You have already viewed the introductory filmstrip about Jack and Jill Records. This was designed to give you, the student, an overall view of our economic system and how it works.

Contained in this student guide, you will find sheets giving factual information on the various principles you saw illustrated in the filmstrip.

Throughout this unit, you will refer to a "market economy." Our economy is called this because it involves economic decision-making by several groups. Those groups making the decision are the governments (federal, state, and local), producers (those seeking the best income for what they offer), and consumers (those looking for the best value in return for what they've spent). Through the interplay of buyers and sellers in the marketplace, decisions are guided.

As a D.E. student, you are preparing yourself to function in our market economy. The key to the market economy is profit. Isn't the reason you work for profit? The same holds true for our entire economy. *It* doesn't work unless it makes a profit.

1. UNEMPLOYMENT

OBJECTIVE: Upon completion of this section, you will be able to identify the concepts related to **UNEMPLOYMENT.**

CAN YOU LEARN THESE?

1. Unemployment
2. Labor Force
3. Full Employment
4. Labor Turnover
5. Underemployment
6. Technology
7. Unemployment Compensation Insurance

If someone should ask you, "What is one of the current problems facing our economy today?" how would you answer? Would you reply, "Unemployment"? Let's see what exactly is **UNEMPLOYMENT** and DOES it affect our marketing economy?

Any time there are people without jobs for an extended length of time in any society, a major problem exists. First of all, it is wasting very valuable resources: our human resources and other sources of supply. We all need money to buy necessities such as food, clothing, and shelter; and without them, we may feel frustrated, degraded, or both. With unemployment, poverty, crime, lack of self-respect, and even social and political stress may result. Unemployment, therefore, refers to people who are not working. Of course, not all people are willing and able to work. Our economy's **LABOR FORCE** is made up of those people who are willing and able to work and includes those who have jobs and those who do not. This does not include people under sixteen years of age, full-time students, homemakers, handicapped, or retired persons.

The ideal situation in an economy is **FULL EMPLOYMENT.** To be able to use all or the majority of productive resources would produce full employment. Though ideal, full employment is never truly acquired because there will always be people who are changing jobs, between jobs, or new persons entering the labor force. This is referred to as **LABOR TURNOVER** and accounts for two to four percent of the labor force.

People do not always find full-time employment or the job they are looking for so they take part-time jobs or jobs in other areas. As a result, **UNDEREMPLOYMENT** occurs.

The government tries to create or find jobs for at least 95% of those willing and able to work in order to keep unemployment at a minimum. Even with government assistance, the unemployment problem still arises. One of the casualties and benefits of an industrial society is **TECHNOLOGY.** With the continuing development of machines and other labor-saving methods, there is a decrease in the need for human resources to produce goods and services. A person may lose his/her job because a machine is able to perform the task at a faster rate.

For employees who lose their jobs under certain conditions, **UNEMPLOYMENT COMPENSATION INSURANCE** is available for a period of time to those unable to find immediate work. In payments of weekly benefits, the employees receive a tax paid by the employer based on the employee turnover while the unemployed continues to look for a job. State Employment Services provide assistance through Job Service and retraining programs as do other private employment agencies, the want ads, friends, relatives, and placement offices at schools.

Since employment is the principal source of income, it is the major tool in alleviating or getting rid of personal hardships. It is necessary that unemployment be kept as low as possible so that our economy can work at full steam.

Jack and Jill were both faced with unemployment with the closing of the department store. What choices did they have in finding employment?

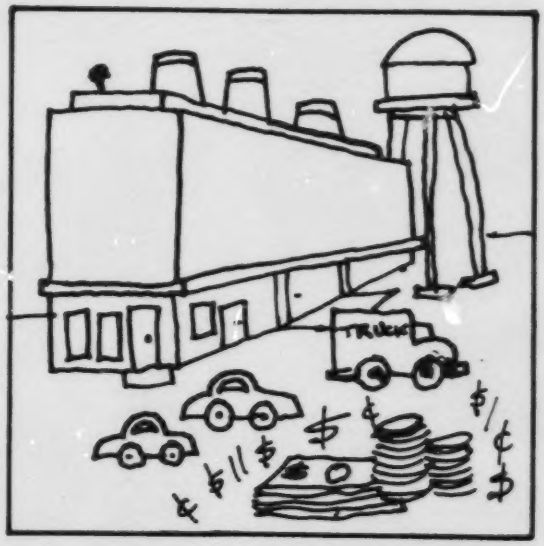
SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

2. CAPITAL

OBJECTIVE: Upon completion of this principle sheet, you will be able to identify the concepts relating to **CAPITAL.**

CAN YOU LEARN THESE?

1. Capital
2. Capital Goods
3. Consumer Goods
4. Working Capital
5. Fixed Capital
6. Interest
7. Credit



If you decided to start your own business, where would you begin? First of all, you would need **CAPITAL.** Capital refers to any resources used for productive purposes other than raw material and labor. This includes money, equipment, and buildings (anything you may use as input for your business except raw materials and labor). The type of business you operate would determine how much capital you need. For example, if you wanted to open a snack bar at the beach, you would need such things as a building, cooking equipment, and food supplies. These items would be your **CAPITAL GOODS** because they assist you in the production of **CONSUMER GOODS,** those goods to satisfy people's wants. All things that are produced are for either consumer consumption or for producing other goods which will be finally consumed. The **FIXED CAPITAL,** which should be kept as low as possible, includes the goods normally purchased to last a long time and to assist in production. Buildings, equipment, and tools fit into this category. Larger amounts of money are spent on day-to-day operations and are known as the **WORKING CAPITAL.** These goods can be converted into cash quickly, if needed.

Capital is productive in that one invests to make capital. The old saying that "it takes money to make money" seems appropriate here. By putting money into acquiring more capital, you are investing. From these investments, you receive income which is known as **INTEREST.** When your capital is productive, your interest increases.

To start a business or maintain operation, a businessperson must many times borrow capital. Sources for capital include savings (not using resources), banks, loan companies and lending institutions, business creditors, and small business investment companies. In order to use many of these sources, one will need **CREDIT.** Credit is a way of transferring resources (goods, services, or money) from the future back to the present. Many business operations, both large and small, need capital to begin or increase their production. By financing a loan, one agrees to repay the money borrowed in installment payments that will be due over a specified period of time.

The major function of capital is to help labor in production. Our economy operates on the idea that new capital goods are the basis for additional future income. This, in turn, creates jobs and goods that are needed to keep our economy thriving. Jack and Jill had to get capital to start their record shop. What sources did they use?

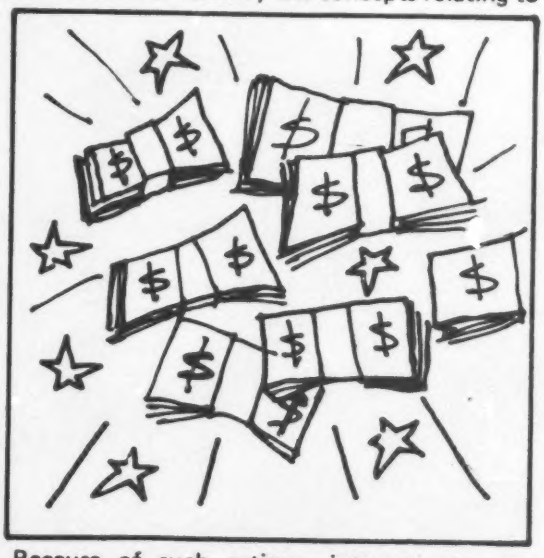
SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

3. MONEY SUPPLY

OBJECTIVE: Upon completion of this section, you will be able to identify the concepts relating to **MONEY SUPPLY.**

CAN YOU LEARN THESE?

1. Monetary System
2. Money Supply
3. Banks
4. Demand Deposits
5. Barter
6. Money



A **MONETARY SYSTEM**, or money system, is an essential prerequisite to specialization and exchange on which trade and growth are based. An economy which relies on **BARTER**, the exchange of goods without money, will develop little specialization because it is inconvenient and time consuming to trade what you produce for what you want to consume.

MONEY serves as a means of exchange, a unit of value. With the discovery of gold in California and other areas in the 1800's, our economy's supply of money or **MONEY SUPPLY** expanded. The gold was turned in to the banks or to the government treasury which issued currency (paper money) freely in exchange.

Our economy's government regulates as well as creates money. The Federal Reserve System's responsibility is to control the size money supply – that is, coins and currency in circulation and checking accounts as well as regulating financial institutions known as **BANKS.** Indirectly, the amount of money business and individuals can borrow from banks is determined by our changing money supply governed by the Federal Reserve System. When the total spending appears too low, the system makes more money available and less available when spending is too high. Because of such actions, interest rates are influenced.

But wait. Not only does the government create money, but banks can also create money. How is this possible? Since they play a very important role in money supply relating to spending and production, banks are able to lend money as long as they have money to lend. People make checking account deposits known as **DEMAND DEPOSITS.** They are able to demand their money at anytime. But as long as it is in the bank, the bank may lend up to 80% of the deposit. Thus, banks are creating money through lending. An unstable banking system hinders economic development because people are not willing to trust their money to banks. Without inflow of deposits, bankers cannot lend money to businesses to start and to expand.

The money needs of businesses and consumers are met by fluctuating the money supply according to their needs. What was the situation of money supply when Jill and partner Jack applied for their loan?

SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

4. GOVERNMENT ROLE

OBJECTIVE: Upon completion of this principle sheet, you will be able to identify the concepts relating to **GOVERNMENT ROLE.**

CAN YOU LEARN THESE?

1. Economic System
2. Government Role
3. Capitalism
4. Modified Capitalism
5. Regulations

What is our government's role in our economic system? First, let's find out what an economic system is. An **ECONOMIC SYSTEM** refers to the way a society is organized to make decisions concerning the use of its resources. It must make decisions such as *what* to produce, *how* to produce, and *for whom* to produce. There are various types of economic systems and these vary according to the **GOVERNMENT'S ROLE** in the system or the degree of government control. There are three basic types of economic systems: **CAPITALISM** or the Free Enterprise, SOCIALISM, and COMMUNISM. A pure free enterprise system exists only in theory because there must be some degree of government control in any system. The United States is an example of a Modified Free Enterprise or **MODIFIED CAPITALISM.** The government has a limited role and the individual has many rights and decisions within the system. The modified free enterprise makes this possible. For example, there is the right to private prosperity: to own, use, or sell. There is also the right to make a profit. This is the incentive or motivation factor in our economy. There is also the right to try to work at whatever job an individual strives toward and the right to go into business. These basic rights distinguish the Modified Free Enterprise System from the Communist or Socialist systems in which there is greater or total government control.

All governments dictate certain **REGULATIONS,** orders or rules, but these are far less in a Modified Free Enterprise System. The greater the government's role and the more regulations that are dictated, the more the system shifts from the Modified Free Enterprise toward socialism and communism. As consumers, we benefit from these regulations, but also we must pay for them. Taxes are paid to finance regulations.

In America, our government's role in the market system includes responsibilities of assistance, protection, and regulations. This gives a degree of freedom to the individual for purchasing goods and offering them for sale. Regulations are placed on business activities so that there is protection of public health and fair competition works freely. It provides protection so that the rights and freedoms of individuals are not abused; for example, the minimum wage laws. The government promotes stabilization and economic growth through economic programs and policies, as well as by contributing our money to provide for groups who are poor due to circumstances beyond their control. The government also produces goods and services, such as more highways and better education, as well as research and experimentation. It is continuously creating and regulating money and providing consumer and business protection through published reports.

As you can see, the government's role is not that of gaining profit and competition,

but is to benefit the largest number of people possible. Jack and Jill are operating within the framework of a Modified Free Enterprise System. They have the right to make decisions concerning their jobs and business while at the same time they are regulated and assisted by our government.

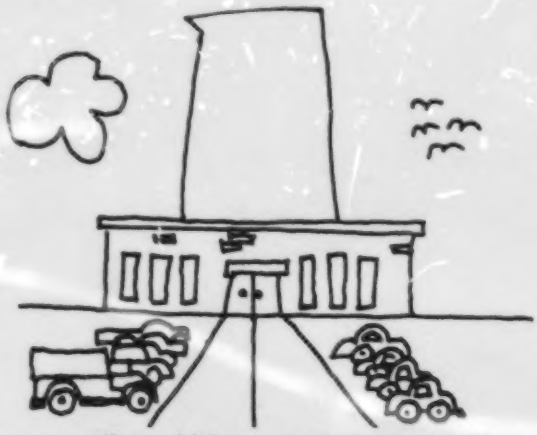
SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

5. MONOPOLY

OBJECTIVE: Upon completion of this section, you will be able to identify the concepts relating to **MONOPOLY.**

CAN YOU LEARN THESE?

1. Monopoly
2. Monopoly Power
3. Natural Monopoly
4. Federal Trade Commission
5. Sherman Anti-Trust Act



A **MONOPOLY** exists when there is only one seller in a business who has little or no competition. When an operation is able to produce and sell a product without any close substitutes on the market, there is a great threat to fair competition. For the product produced and exchanged by a monopoly, higher prices may be charged and there may be less output on production that a more competitive firm would give. A monopoly may even result in hardships on the buyer and supplier of the goods. The buyer is paying a higher price while the supplier may not receive the price desired on the goods by a monopoly.

Some of the threats of a monopoly include higher prices, less production in the goods, and slower technological developments.

MONOPOLY POWER means that a business has the power to influence. It influences how much of a product is produced and the price of the product. Having monopoly power may also involve creating and maintaining a demand for a product.

What has been done to control monopolies? In the late 1800's, the government passed the **SHERMAN ANTI-TRUST ACT**, which dissolved then existing monopolies. The Congress created the **FEDERAL TRADE COMMISSION** which is a commission to help promote free and fair competition. Other laws and rules have given the government the authority to regulate legal monopolies, which are granted certain rights, and control their prices.

NATURAL MONOPOLIES include those firms that are regulated by the government because with competition, inefficiency would occur. Gas, electric, water, and telephone companies are examples of these. Natural monopolies occur in every capital-intensive industry.

In our economy, consumers need to be insured that they will receive services at reasonable and fair costs. Did Jack and Jill have a monopoly on the record business in Central City?

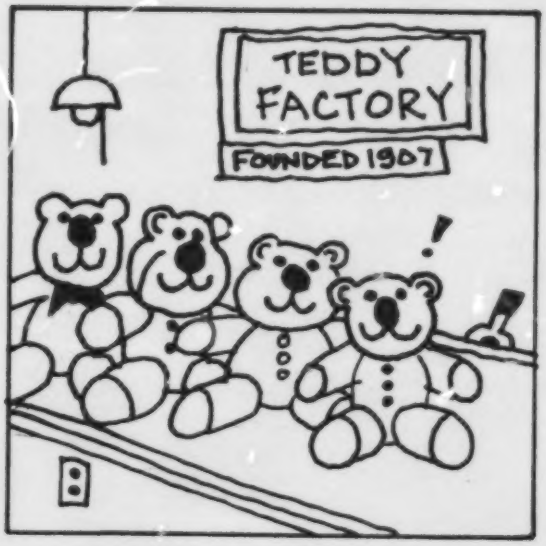
SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

6. PRODUCTION

OBJECTIVE: Upon completion of this principle sheet, you will be able to identify the concepts relating to **PRODUCTION.**

CAN YOU LEARN THESE?

1. Production
2. Utility
3. Form Utility
4. Place Utility
5. Time Utility
6. Possession Utility
7. Labor
8. Land
9. Capital
10. Entrepreneurship
11. Mass Production
12. Channels of Distribution



How does our economy take nature's products and change them into valuable consumer goods? By the creation of utility, otherwise known as **PRODUCTION.** If a good or service is useful to the consumer, then it is said to have **UTILITY** or it satisfies human needs and wants.

In order for usefulness to be achieved, things must be given new physical forms or possess **FORM UTILITY;** be in a place where customers can readily obtain them, **PLACE UTILITY;** while being available at the time needed, **TIME UTILITY;** and finally be purchased from the retailer to use, **POSSESSION UTILITY.** Before they are consumed, they already possess these four utilities.

How then, do we as an economy produce the goods that consumers want and need? As mentioned in an earlier section, our economy must make certain decisions about production, since production is a necessary part of our economic system. Those decisions include *what* to produce, *how* to produce, *how much* to produce, and *for whom* to produce? By finding out what consumers need, or in other terms, demand, the producers are able to supply the appropriate goods. Thus, production is determined by demand.

To be highly developed or efficient in how we increase production and reduce costs will depend on our technological advances. Anytime a producer can become more efficient, she/he can better compete with other producers and make a profit. Not only does the producer need to become more efficient, but also more creative in order to produce new and better products. With

modern technology, large factories and large dollar investments are required since a few large firms can supply lower cost items than many small ones.

By manufacturing large quantities of the same kind of article using machines in modern factories, producers can lower the costs of production. This is called **MASS PRODUCTION.**

How much a nation can produce depends on its available inputs, resources, or factors of production: land, labor, capital, and entrepreneurship. **LAND** includes all our natural resources such as land, water, minerals, fuels, and metals. All methods of performing mental and physical efforts are referred to as **LABOR. CAPITAL** is the sum total of money, buildings, and equipment invested in the operation of a business, and **ENTREPRENEURSHIP** refers to the extraordinary ability of a person who operates or manages any enterprise and takes a risk to make a profit. By using these four factors of production, a nation specializes in producing those goods at which it is best. Because it does this, the nation can operate on a larger scale than would be possible if it produced only for the home market, thus lowering the cost per unit of goods.

These produced goods must get to the ultimate consumer. The way the product gets from the producer to the customer is referred to as the **CHANNELS OF DISTRIBUTION.**

The record business received their goods from what sources?

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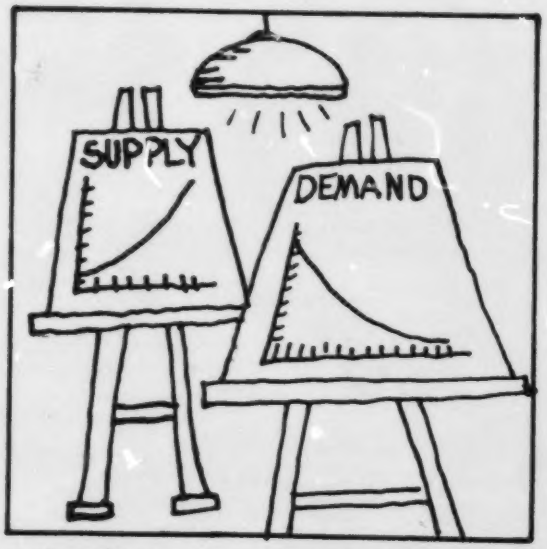
7. SUPPLY AND DEMAND

OBJECTIVE: Upon the completion of this principle sheet, you will be able to identify the concepts relating to **SUPPLY** and **DEMAND** and how they work together.

CAN YOU LEARN THESE?

1. Supply
2. Demand
3. Law of Supply
4. Law of Demand
5. Buyer's Market
6. Seller's Market
7. Market Equilibrium Price



What our economy produces is determined by what people will pay for various amounts of a good in relation to what it costs to produce it. This shows how our economy fits together and works. Thus, supply and demand are introduced here. **SUPPLY** refers to the amount of economic goods offered by a supplier for sale at a given time and price. **DEMAND**, in return, refers to the desire and ability by a consumer to purchase these economic goods at different prices. In the free marketplace, demand determines the balance of supply and actually directs the economy. To determine the demand by the consumers, the wants and incomes of the consumer must be known.

Since goods are flowing out of the market to the buyers (those purchasing the goods for resale), then how do the goods get into the market? From sellers, of course! Sellers produce the goods and put them into the market place. To keep these goods flowing to and from the market, supply should be balanced with the changing demand of goods and services.

The supply and demand affect our economy in various ways: the prices of goods and services or the market value, the prices of raw materials, the careers people choose, the jobs they get, as well as the wages they are paid, the number of similar businesses, and the interest we pay when borrowing money.

When there are many goods available for sale, the price goes down. This is known as the **LAW OF SUPPLY**. When there are few goods in market and people want them, the price goes up. This is the **LAW OF DEMAND**. An example would be: suppose you bought a dozen apples last week for 89 cents and the demand increases while the supply does not, then the following week you may pay 99 cents for a dozen. All the time, supply and demand are trying to level off or move toward the middle so that the quantity offered for sale is exactly equal to the quantity demanded by the purchasers. As the supply increases, prices are lowered until eventually the price equals the cost of production. This is **EQUILIBRIUM MARKET PRICE** – just the right price. It is low and high enough so that sellers want to sell and buyers want to buy. Thus, the quantity demanded equals the quantity supplied. There is no shortage or surplus of goods. Do you suppose the buyers

and sellers are really happy? Of course not! Sellers are continuously wanting higher prices for their goods while buyers are desiring to purchase at lower prices.

As consumer prices rise, new suppliers or sellers are attracted to the market until a new higher market equilibrium price is reached. When the supply is large and the demand is low, the buyer has a bargaining advantage known as the **BUYER'S MARKET**. The seller has the bargaining advantage known as **SELLER'S MARKET** when the supply is low and the demand is high.

As mentioned earlier, careers people choose, jobs available, and wages earned are affected by supply and demand. When people are buying less than what economy is producing, unemployment increases because production goes down and vice versa. Salaries are determined in the labor market by supply of and demand for workers in particular occupations. High salaries are a signal to train for and enter certain occupations because demand is large relative to supply. While low wages are a signal to leave or not enter a particular occupation because supply is large and demand is low.

Jack and Jill chose to go into the record business because the supply of record shops was low in their area and the demand was high. How do you think this will affect the success of their business venture?

SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

8. PRICING

OBJECTIVE: Upon completion of this principle sheet, you will be able to identify the concepts relating to **PRICING.**

CAN YOU LEARN THESE?

1. Pricing System
2. Economic Value
3. Elastic Demand
4. Inelastic Demand
5. Subsidy

How did our pricing system develop? In the early days, the Barter System depended totally on the usefulness of a product. Since it was an exchange system using only products, the supply of the product regulated the economic value of the product. The **ECONOMIC VALUE** means the worth or usefulness that persons place on goods and services in satisfying their wants and needs. If one could not easily get a product, then it was not very valuable. Since this system was most inconvenient and inefficient, an easier system was needed.

The **PRICING SYSTEM** we use today means that one's labor or product is exchanged for money and this money is used to buy goods and services. Money is used as a medium of exchange as well as a standard measure of value by which prices are determined. Prices are stated in terms of money (pricing) rather than products (barter).

Under our pricing system, prices change because of economic value. A general rise in all prices may occur or even a general fall may occur. This simply means that the purchasing power (value of money) has changed. The purchasing power of the dollar has decreased as a result of inflation. Usually when raw materials go up, prices go up.

Factors directly affecting prices, as well as prices affecting them, include competition, supply, and demand. In supply, if the price of a product for resale is favorable, the producer will offer larger quantities for sale. If unfavorable, he may hold his products until prices are favorable or he may stop production.

ELASTIC DEMAND means that a good that has a change in price brings out a change in the amount that is purchased. This produces a change in the quantity bought. **INELASTIC DEMAND** is when a change in price does not necessarily change the quantity bought.

Factors indirectly affecting price include credit, monopoly, taxes, and the value of money.

The goals of pricing are to match competition, to obtain a specific share of the market, and to achieve a specific return from sales.

The pricing system is controlled by several areas: the government, businesses, producers, and workers. There are organized groups who attempt to get government protection representing the different aspects of production, distribution, and consumption. When the government sees that a product is needed but results in large expenses to the producer, then a **SUBSIDY** may be offered to businesses or individuals to increase the income of the producer through a direct payment so that his production costs will not

be so high. Other areas in which the government controls prices are interest rates, wage rates, and credit.

Through our pricing system, how will Jack and Jill be controlled by the government?

SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU LEARNED.

9. PROFIT

OBJECTIVE: Upon completion of this section, you will be able to identify the concepts relating to **PROFIT.**

CAN YOU LEARN THESE?

1. Profit
2. Net Profit
3. Profit Motive
4. Profit-Loss Statement
5. Profit-Sharing

When you are employed, you receive an income, right? Well, when businesses work for the production and distribution of goods and services, they receive an income, too. This business income is called **PROFIT.** But just as you have deductions from your income, such as taxes, etc., so do businesses. These deductions may be in the form of expenses for operating the business, taxes, and other revenues. The remaining portion of this income, once expenses are deducted and those who have contributed to production have been paid, is called **NET PROFIT.** In other words, any expenses that require money to satisfy its needs, such as paying for land or insurance, are deducted from the total money receipts of a firm.

After your deductions, would you be willing to give your remaining income to someone else? That's what happens to business firms in a controlled economy. All profits go to the government. But that's not true in our free enterprise system. Individuals are able to go into business for themselves and earn a profit. They keep what they've worked hard for and this gives an incentive (motive) for accumulating capital. Since our economy is based on the idea of *free* enterprise, reasons for engaging in the production and distribution of goods and services are more desirable. The idea of **PROFIT MOTIVATION** provides individuals the opportunity to achieve the satisfaction of performing a useful service while at the same time receiving a monetary (money) reward for services equal to their skill, effort, and the risk assumed. This is an "incentive payment" to the entrepreneur!

Our government's stability is the basis for economic development. Economic growth depends on capital formation. Businesses are able to expand and keep abreast of various changes in the demand of consumers by reinvesting their accumulated profits. They may decide to expand, repay loans, create new jobs, or improve competitiveness. They are, in other words, investing their own capital.

Do all businesses make a profit? Not always. In some cases, a high rate of profit must be earned in addition to what is required to run the business, so that they can continue to operate when there are no profits. Expenses may increase while income does not. Many businesses borrow money to make a profit to improve their ability to earn.

How do businesses keep account of whether or not they're operating with profit? Most businesses use a **PROFIT-LOSS STATEMENT** which is a record that shows the progress of a firm over a period of time. This is essential to the operation of the

marketing process.

A business can increase its profit by increasing sales, raising prices, or reducing expenses.

In addition, a firm may distribute its profits to its employees by **PROFIT-SHARING** (an incentive program for production). The employees do not have to buy company stock. How will Jack and Jill determine whether or not they are operating with a profit?

SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

10. COMPETITION

OBJECTIVE: Upon completion of this principle sheet, you will be able to identify the concepts relating to **COMPETITION.**

CAN YOU LEARN THESE?

1. Competition
2. Price Competition
3. Non-Price Competition
4. Product Differentiation
5. Perfect Competition
6. Imperfect Competition

What happens when two service stations open on the opposite corners of the street? There is **COMPETITION.** This simply means that there are two (or more) businesses acting independently to attract customers. It's also an economic freedom — the right to compete.

How does competition affect the buyers and sellers? Since our economy is based on competition between producers, there is constant change in our economic system. There are many buyers and sellers of products and a single seller can't control the market and form a monopoly. The government wants to keep a competitive environment so that anyone is free to enter a business and compete. This gives individuals a chance to prove themselves, if they desire, as well as use their talents and ideas.

In order to compete, producers are constantly experimenting with and developing new products in order to meet the changing tastes of the public. They may improve an existing product, create a new one, lower the price, or vary the product so that it has the features that a competing product doesn't have. One producer may offer goods and services at a lower price in order to gain more customers and compete. This is known as **PRICE COMPETITION.** Another producer may offer new innovations, the latest styles, a maintenance service, or a higher quality of goods without reference to price. This consumer attraction is known as **NON-PRICE COMPETITION.**

Producers also tend to move where the earnings are higher and leave the lower earnings behind. Because of this, raw materials, facilities, and workers are being shifted to these new areas.

The best goods and services will become more successful if the public is made aware of them. Competition is the real decision-maker of the business which will be successful. **PRODUCT DIFFERENTIATION** is all of the competitive devices a business may use in order to make its product more desirable or different from similar products. These include such things as the location of the business, advertising, product quality and design, packaging, and any rendering services a business has such as delivery and charge accounts for its customers.

Competition, as well as being advantageous, limits the profit each business makes. Just the cost of doing business affects its profit. When there are many sellers of the

same product, **PERFECT COMPETITION** occurs since no seller can alter the price of a good by increasing or decreasing the quantity produced. A monopoly, just because there are no others on the market, produces no competition. In between these two situations lies **IMPERFECT COMPETITION.** With a number of sellers having differentiated products, there can be some adjustments made in price and quantity. More of the latter occurs in our economy.

How does competition affect the consumer? Usually through benefits such as new products, lower prices, better services, and improved products. Over the years, competition has made tremendous changes in the growth of the business and products, as well as improving our living conditions. We can say that much progress has been made because of our competitive environment (set by the government). Without it, there is a waste of human and natural resources, and prices tend to be higher.

Did Jack and Jill have a type of monopoly in the record business in Center City? What do you suppose would happen if another record shop opened up nearby?

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11. GROSS NATIONAL PRODUCT

OBJECTIVE: Upon completion of this section, you will be able to identify the concepts relating to **GROSS NATIONAL PRODUCT.**

CAN YOU LEARN THESE?

1. GNP
2. Per Capita
3. Net National Product
4. National Income
5. Economic Growth
6. Standard of Living

Now that you have become familiar with many of the elements of our economy, how do we analyze the way it works? By the measuring device, G.N.P., of course! What do we mean by G.N.P.? The economic growth of our nation is measured by the **GROSS NATIONAL PRODUCT** or National Output, which is the total of all goods and services produced in the economy valued at the current market prices over a specified period, usually one year. This is reported by the Department of Commerce and is usually expressed in dollars.

Seldom does economic growth occur at an even, steady pace. Sometimes it spurts up and then usually is followed by slowdowns, recessions, or declines at other times. When there is a backlog of consumer goods, production must be slowed down for a while until we use up stock and start needing additions and replacements. When production is slowed down, there are fewer inputs, and unemployment rises. When the economy is in need of expansion, competition for inputs raises wages and other costs, thus resulting in inflation.

An increase in **PER CAPITA** (the amount per person) indicates the **ECONOMIC GROWTH** by such factors as population growth, labor force growth, and the productivity of each worker. The combination of these factors result in our economic growth, some of which are controlled by the government and others are not.

There are two ways of looking at the G.N.P. The first is the expenditures approach or the **NET NATIONAL PRODUCT.** This refers to the sum of spending on finished or final goods and services including personal consumption, business investments, government purchases of goods and services, and new exports. The second approach is the Income Approach or the **NATIONAL INCOME.** This is the income derived or created from labor and business owners resulting from production of G.N.P. value.

The G.N.P. also closely affects how well a nation of people live by what the economy provides. This is our **STANDARD OF LIVING.** When our nation produces more goods and services in proportion to our population, a higher standard of living results. With more production and rising employment, people spend more money.

Businesspeople and government officials

closely watch the G.N.P. and compare statistics to find out the trend of general business conditions. This indicates how well the economy is progressing. As compared to 44 million people in 1876, the G.N.P. distributed to a population of 214 million people in 1975, thus putting the United States among the highest of the world's major industrial nations. Since World War II, an average of 4% a year has been the growth of the GNP in the United States; and the present trend, as predicted by experts, will continue. Businesspersons, including retailers, are signaled that sales opportunities may be expanding because of increased spending and investing by major segments of the economy.

Will it benefit Jill and Jack to review the G.N.P. periodically to find how the economy is measuring up?

SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU HAVE LEARNED.

12. INFLATION

OBJECTIVE: Upon completion of this principle sheet, you will be able to identify the concepts relating to **INFLATION.**

CAN YOU LEARN THESE?

1. Inflation
2. Deflation
3. Overexpansion
4. Wage-Price Spiral
5. Cost-Push Inflation
6. Demand-Pull Inflation

A familiar element in our economy today is that of **INFLATION.** This economic condition refers to an increase in the money supply, either credit, money, or both, in relation to the reduced availability of goods and services for purchase. The prices of goods rise, thus declining the value of our dollar. We have money to spend but fewer goods to buy. During wartimes, this is especially true.

There are basically three causes of inflation: when there is little competition between producers; when businesses have higher labor costs and prices rise; and when the government, businesses, and individuals spend heavily on the goods and services available **(COST-PUSH INFLATION). DEMAND-PULL INFLATION** occurs when the value of the dollar decreases, and our economy experiences undesirable results So it is best to try to keep inflation under control. The ideal money supply is one that grows just about as fast as the output of goods and services (supply) so that there is no pressure upward (inflation) or downward **(DEFLATION).**

In our business cycle, when inflation occurs, definite characteristics appear; those of high production, high employment, and highly unstable prices which increase at rapid rates and unreasonable heights.

Price increases, resulting from inflation, often are followed by a cost of living wage increase. Just the same, when there are wage increases, prices tend to rise. This never-ending relationship between wage increases and price increases is known as the **WAGE-PRICE SPIRAL.**

Just as inflation is the result of price increases, **DEFLATION** is the result of a fall in prices. This may be caused by a decrease in credit, money, or both in relation to the number of goods available for purchase.

Anytime there is expansion, competition for inputs raises wages and other costs, as mentioned earlier, resulting in inflation. When there is **OVEREXPANSION,** a recession or depression may result because individuals and business firms are borrowing too much money. The Federal Reserve System, through a stability policy, discourages banks to lend money for business expansion by raising the rediscount rate.

Who is affected most by the inflation? The hardest-hit groups are retired persons and some workers. Without increases in their incomes, they must pay more for the same goods which results in buying less. This automatically lowers their standard of living.

How might inflation affect the record shop if there is an increase in the costs of

records and tapes that Jack and Jill purchase from their suppliers?

SECURE THE SELECTED LEARNING ACTIVITY FROM YOUR INSTRUCTOR. UPON COMPLETION OF THE ACTIVITY, YOU WILL COMPLETE A QUICK CHECK TO SEE HOW MUCH YOU LEARNED.